

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Germfask	<b>County</b> Schoolcraft
<b>Audit Date</b> March 31, 2006	<b>Opinion Date</b> June 19, 2006	<b>Date Accountant Report Submitted to State:</b> July 21, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

**Certified Public Accountant (Firm Name)**  
Campbell, Kusterer & Co., P.C.

**Street Address**  
512 N. Lincoln, Suite 100, P.O. Box 686

**City**  
Bay City

**State**  
MI

**Zip**  
48707

**Accountant Signature**  
*Campbell, Kusterer & Co., P.C.*

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	9
Proprietary Funds:	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements	13-19
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	20
Balance Sheet- Water Fund	21
Statement of Revenues, Expenses and Changes in Retained Earnings- Water Fund	22
Statement of Cash Flows- Water Fund	23
Other supporting information:	
Current Tax Collection Fund- Statement of Changes in Assets and Liabilities	24
Statement of Insurance Coverage	25

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

TABLE OF CONTENTS

Page

Report on Compliance and on Internal Control Over Financial Reporting Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards	26
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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## INDEPENDENT AUDITOR'S REPORT

June 19, 2006

To the Township Board  
Township of Germfask  
Schoolcraft County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Township of Germfask, Schoolcraft County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Germfask's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of the Township of Germfask, Schoolcraft County, Michigan as of March 31, 2006, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments-* as of April 1, 2006.

In accordance with Government Auditing Standards, we have also issued our report dated June 19, 2006, on our consideration of the Township of Germfask's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Germfask covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$473,961.62 for governmental activities and \$329,162.16 for business-type activities.

Overall revenues were \$188,380.67. Governmental activities had a \$21,410.74 increase in net assets and business-type activities had a \$4,035.21 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities and business-type activities. These include the General Fund and the Water Fund.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund and the Building Fund.

Business Type Funds: The Township has a Water Fund, which provides water services to the Township residents.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains stable.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for all of the Township's governmental services which totaled \$165,251.42.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$47,000.00 in capital assets.

The Township's business-type activities did not invest in capital assets this year.

The Township's business-type activities paid \$4,000.00 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future state of revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk, Linda Norris at P.O. Box 132, Germfask, MI 49836-0132.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	166 080 55	1 032 23	167 112 78
Accounts receivable	-	2 678 50	2 678 50
Taxes receivable	11 837 39	-	11 837 39
Cash in bank – restricted	-	50 728 21	50 728 21
Total Current Assets	<u>177 917 94</u>	<u>54 438 94</u>	<u>232 356 88</u>
NONCURRENT ASSETS:			
Capital Assets	372 400 00	672 805 50	1 045 205 50
Less: Accumulated Depreciation	<u>(76 356 32)</u>	<u>(323 782 28)</u>	<u>(400 138 60)</u>
Total Noncurrent Assets	<u>296 043 68</u>	<u>349 023 22</u>	<u>645 066 90</u>
TOTAL ASSETS	<u>473 961 62</u>	<u>403 462 16</u>	<u>877 423 78</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accrued interest payable	-	300 00	300 00
Total Current Liabilities	<u>-</u>	<u>300 00</u>	<u>300 00</u>
NONCURRENT LIABILITIES:			
Bonds payable	-	74 000 00	74 000 00
Total Noncurrent Liabilities	<u>-</u>	<u>74 000 00</u>	<u>74 000 00</u>
Total Liabilities	<u>-</u>	<u>74 300 00</u>	<u>74 300 00</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	296 043 68	275 023 22	571 066 90
Restricted for debt service	-	50 728 21	50 728 21
Unrestricted	<u>177 917 94</u>	<u>3 410 73</u>	<u>181 328 67</u>
Total Net Assets	<u>473 961 62</u>	<u>329 162 16</u>	<u>803 123 78</u>
TOTAL LIABILITIES AND NET ASSETS	<u>473 961 62</u>	<u>403 462 16</u>	<u>877 423 78</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	2 320 00	-	(2 320 00)
General government	75 392 63	5 637 43	(69 755 20)
Public safety	20 996 25	-	(20 996 25)
Public works	17 063 43	3 715 00	(13 348 43)
Other	17 960 82	-	(17 960 82)
<b>Total Governmental Activities</b>	<u>133 733 13</u>	<u>9 352 43</u>	<u>(124 380 70)</u>
Business Type Activities:			
Water and sewer	29 201 56	32 932 00	-
<b>Total Business Type Activities</b>	<u>29 201 56</u>	<u>32 932 00</u>	<u>-</u>
<b>Total Government</b>	<u>162 934 69</u>	<u>42 284 43</u>	<u>(124 380 70)</u>
General Revenues:			
Property taxes			53 251 87
P.I.L.O.T. - swamp tax			11 460 04
State revenue sharing			40 598 49
Federal grant			15 065 00
Hall rent			12 072 00
Interest			950 97
Miscellaneous			12 393 07
<b>Total General Revenues</b>			<u>145 791 44</u>
Change in net assets			21 410 74
Net assets, beginning of year			<u>452 550 88</u>
Net Assets, End of Year			<u>473 961 62</u>

The accompanying notes are an integral part of these financial statements.

Business Type Activities	Total
Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
-	(2 320 00)
-	(69 755 20)
-	(20 996 25)
-	(13 348 43)
-	(17 960 82)
-	(124 380 70)
3 730 44	3 730 44
3 730 44	3 730 44
3 730 44	(120 650 26)
-	53 251 87
-	11 460 04
-	40 598 49
-	15 065 00
-	12 072 00
304 80	1 255 77
-	12 393 07
304 80	146 096 24
4 035 24	25 445 98
325 126 92	777 677 80
329 162 16	803 123 78

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2006

<u>Assets</u>	<u>Total (General)</u>
Cash in bank	166 080 55
Taxes receivable	<u>11 837 39</u>
Total Assets	<u><u>177 917 94</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities	
Total liabilities	<u>-</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>177 917 94</u>
Total fund equity	<u><u>177 917 94</u></u>
Total Liabilities and Fund Equity	<u><u>177 917 94</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS 177 917 94

Amounts reported for governmental activities in the statement of  
net assets are different because –

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost	372 400 00
Accumulated depreciation	<u>(76 356 32)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES 473 961 62

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2006

	<u>Total (General)</u>
Revenues:	
Property taxes	53 251 87
P.I.L.O.T- swamp tax	11 460 04
State revenue sharing	40 598 49
Federal grant	15 065 00
Charges for services	-
Property tax administration fee	2 967 43
Cemetery	2 670 00
Interest	950 97
Special assessments- solid waste	3 715 00
Hall rental	12 072 00
Miscellaneous	<u>12 393 07</u>
Total revenues	<u>155 143 87</u>
Expenditures:	
Legislative:	
Township Board	2 320 00
General government:	
Supervisor	10 024 50
Elections	725 14
Clerk	4 819 50
Assessor	5 400 00
Board of Review	397 50
Treasurer	5 248 50
Township hall and grounds	25 614 38
Cemetery	3 930 00
Unallocated	16 068 07
Public safety:	
Fire protection	8 189 98
Liquor	489 60
Public works:	
Highways and streets	2 551 00
Street lighting	6 438 43
Sanitation	6 874 00
Hydrant rental	1 200 00
Other:	
Insurance	14 658 00
Retirement	3 302 82
Capital outlay	<u>47 000 00</u>
Total expenditures	<u>165 251 42</u>
Excess of revenues over expenditures	(10 107 55)
Fund balances, April 1	<u>188 025 49</u>
Fund Balances, March 31	<u><u>177 917 94</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (10 107 55)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(15 481 71)
Capital Outlay	<u>47 000 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>21 410 74</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

STATEMENT OF NET ASSETS- ALL PROPRIETARY FUNDS  
March 31, 2006

<u>Assets</u>	<u>Water</u>
Cash in bank	1 032 23
Accounts receivable	2 678 50
Cash in bank- restricted	50 728 21
Capital assets	672 805 50
Accumulated depreciation	<u>(323 782 28)</u>
Total Assets	<u>403 462 16</u>
<u>Liabilities and Net Assets</u>	
Liabilities:	
Accrued interest payable	300 00
Bonds payable	<u>74 000 00</u>
Total liabilities	<u>74 300 00</u>
Net assets:	
Invested in capital assets net of related debt	275 023 22
Restricted	50 728 21
Unrestricted	<u>3 410 73</u>
Total net assets	<u>329 162 16</u>
Total Liabilities and Net Assets	<u>403 462 16</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS- ALL PROPRIETARY FUNDS  
Year ended March 31, 2006

	<u>Water</u>
Operating revenues:	
Charges for services	<u>32 932 00</u>
Total operating revenues	<u>32 932 00</u>
Less operating expenses:	
Wages	5 920 00
Contracted services	1 014 76
Supplies	696 18
Utilities	629 76
Miscellaneous	<u>1 929 50</u>
Total operating expenses before depreciation	<u>10 190 20</u>
Operating income (loss) before Depreciation	22 741 80
Less: depreciation	<u>(15 211 36)</u>
Operating income (loss)	<u>7 530 44</u>
Other income and (expense):	
Interest income	304 80
Interest expense	<u>(3 800 00)</u>
Net other income and (expense)	<u>(3 495 20)</u>
Net income	4 035 24
Net assets, April 1	<u>325 126 92</u>
Net Assets, March 31	<u>329 162 16</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

STATEMENT OF CASH FLOWS- ALL PROPRIETARY FUNDS  
Year ended March 31, 2006

	<u>Water</u>
Cash flows from operating activities:	
Cash received from customers	32 698 50
Cash payments to suppliers for goods and services	<u>(10 190 20)</u>
Net cash provided (used) for Operating activities	<u>22 508 30</u>
Cash flows from capital and related financing activities:	
Payments of principal on long-term debt	(4 000 00)
Payments of interest on long-term debt	<u>(3 800 00)</u>
Net cash provided (used) for capital and related financing activities	<u>(7 800 00)</u>
Cash flows from investing activities:	
Interest income	<u>304 80</u>
Net cash provided (used) for investing activities	<u>304 80</u>
Net increase (decrease) in cash and cash equivalents	15 013 10
Cash and cash equivalents, April 1	<u>36 747 34</u>
Cash and Cash Equivalents, March 31	<u>51 760 44</u>
Reconciliation of operating income to net cash provided (used) for operating activities:	
Operating income (loss)	7 530 44
Depreciation	15 211 36
Increase (decrease) in assets and liabilities	
Accounts receivable	<u>(233 50)</u>
Net Cash Provided (Used) for Operating Activities	<u>22 508 30</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Germfask, Schoolcraft County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Germfask. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All purchases for materials are reflected in expenses when paid in all funds.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 2.3599 mills, and the taxable value was \$9,960,266.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building	20-120 years
Equipment	5-25 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$296,043.68.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 2 -- Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 -- Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>217 840 99</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	199 068 18
Uninsured and Uncollateralized	<u>18 891 97</u>
Total Deposits	<u>217 960 15</u>

The Township did not have any investments as of March 31, 2006.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land and improvements	49 500 00	-	-	49 500 00
Building	61 000 00	-	-	61 000 00
Equipment	<u>214 900 00</u>	<u>47 000 00</u>	<u>-</u>	<u>261 900 00</u>
Total	325 400 00	47 000 00	(10 249 00)	372 400 00
Accumulated Depreciation	<u>(60 874 61)</u>	<u>(15 481 71)</u>	<u>10 249 00</u>	<u>(76 356 32)</u>
Net Governmental Capital Assets	<u>264 525 39</u>	<u>(31 518 29)</u>	<u>-</u>	<u>296 043 68</u>
<u>Business Type Activities:</u>				
Water System	672 805 50	-	-	672 805 50
Accumulated Depreciation	<u>(308 570 92)</u>	<u>(15 211 36)</u>	<u>-</u>	<u>(323 782 28)</u>
Net Business Type Capital Assets	<u>364 234 58</u>	<u>(15 211 36)</u>	<u>-</u>	<u>349 023 22</u>

Note 5 – Water Bonds Payable

On August 11, 1980, the Township issued Water Supply System Revenue Bonds in the amount of \$125,000.00. The bonds bear interest at 5%, per annum. Indebtedness outstanding as of March 31, 2006, is as follows:

<u>Payable Fiscal Year Ended March 31</u>	<u>September 1</u>		<u>March 1</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Principal &amp; Interest</u>
2007	4 000 00	1 850 00	1 750 00	7 600 00
2008	4 000 00	1 750 00	1 650 00	7 400 00
2009	4 000 00	1 650 00	1 550 00	7 200 00
2010	5 000 00	1 550 00	1 425 00	7 975 00
2011	5 000 00	1 425 00	1 300 00	7 725 00
2012	5 000 00	1 300 00	1 175 00	7 475 00
2013	5 000 00	1 175 00	1 050 00	7 225 00
2014	6 000 00	1 050 00	900 00	7 950 00
2015	6 000 00	900 00	750 00	7 650 00
2016	6 000 00	750 00	600 00	7 350 00
2017	6 000 00	600 00	450 00	7 050 00
2018	6 000 00	450 00	300 00	6 750 00
2019	<u>5 340 00</u>	<u>267 00</u>	<u>133 50</u>	<u>5 740 50</u>
Totals	<u>67 340 00</u>	<u>14 717 00</u>	<u>13 033 50</u>	<u>95 090 50</u>

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 6 – Water Bonds Payable (continued)

On January 27, 1982, the Township issued additional Water Supply System Revenue Bonds in the amount of \$13,000.00. The bonds bear interest at five percent. Indebtedness outstanding as of March 31, 2006, is as follows:

Payable Fiscal Year Ended March 31	<u>September 1</u>		<u>March 1</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Principal &amp; Interest</u>
2007	300 00	172 50	165 00	637 50
2008	400 00	165 00	155 00	720 00
2009	400 00	155 00	145 00	700 00
2010	400 00	145 00	135 00	680 00
2011	400 00	135 30	125 00	660 00
2012	500 00	125 00	112 50	737 50
2013	500 00	112 50	100 00	712 50
2014	500 00	100 00	87 50	687 50
2015	500 00	87 50	75 00	662 50
2016	500 00	75 00	67 50	642 50
2017	500 00	67 50	50 00	617 50
2018	500 00	50 00	37 50	587 50
2019	500 00	37 50	25 00	562 50
2020	500 00	25 00	12 50	537 50
2021	260 00	6 50	-	266 50
Totals	<u>6 660 00</u>	<u>1 459 00</u>	<u>1 292 50</u>	<u>9 411 50</u>

According to provisions of the Bond Ordinance, the Township was to establish and operate the following accounts:

Upon the commencement of service of the System, there is to be set aside and deposited each month pursuant to budget a sufficient portion of the income and revenues in an Operation and Maintenance Account to pay the reasonable and necessary current expenses of administration, operating and maintaining said system for the ensuing quarter.

After the transfer required above, there shall be transferred each month from the Water Supply System Receiving Account, before any other expenditures or transfers therefrom, and deposited in a Water Supply System Revenue Bond – Bond and Interest Redemption Account for payment of principal and interest on the bonds, a sum equal to at least 1/6 of the amount equal to the interest due on the next ensuing interest due date and not less than 1/12 of the principal maturing on the next ensuing bond maturity date.

Within the Bond and Interest Redemption Account, there is to be established a separate account to be known as the Bond Reserve Account, into which there shall be paid, commencing July 1, 1981, in equal monthly installments, from the revenues of the System after provision has been made for the Operation and Maintenance Account and the current requirements of the Bond and Interest Redemption Account, the sum of \$300 annually until there is accumulated in such account the sum of \$9,000.00. The monies in the Bond Reserve Account shall be used solely for the payment of the principal and interest on said Bonds as to which there would otherwise be default.

At March 31, 2006, the Township had \$ - 0 - in the Bond and Interest Redemption Account and \$26,658.07 in the Bond Reserve Account and \$29,070.14 in the Bond Revenue Account which is shown in the financial statements as restricted assets and reserved retained earnings.

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 6– Pension Plan

The Township has a pension plan covering all full-time employees. Pension expense for the year ended March 31, 2006, was \$3,302.82.

Note 7– Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 8– Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9– Building Permits

The Township of Germfask does not issue building permits. Building permits are issued by the County of Schoolcraft.

Note 10 – Prior Period Enterprise Fund Financial Statements

The financial statements for the Water Fund for the year ended March 31, 2006, are presented in this report to meet FHA requirements

Note 11 – Budge Variances

During the fiscal year ended March 31, 2006, Township expenditures exceeded the budgeted amounts in the activities as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activities:			
Township Board	2 240 00	2 320 00	80 00
Treasurer	5 000 00	5 248 50	248 50
Township hall and grounds	25 000 00	25 614 38	614 38
Cemetery	3 500 00	3 930 00	430 00
Liquor	489 00	489 60	60
Street lighting	6 200 00	6 438 43	238 43
Sanitation	5 000 00	6 874 00	1 874 00
Capital outlay	4 000 00	47 000 00	43 000 00



TOWNSHIP OF GERMFASK  
Berrien County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	64 000 00	64 000 00	53 251 87	(10 748 13)
P.I.L.O.T. - swamp tax	11 460 00	11 460 00	11 460 04	04
State revenue sharing	44 000 00	41 000 00	40 598 49	(401 51)
Federal Grant	8 000 00	8 000 00	15 065 00	7 065 00
Charges for services:				
Property tax administration fee	-	-	2 967 43	2 967 43
Cemetery	3 500 00	3 500 00	2 670 00	(830 00)
Hall rent	13 000 00	13 000 00	12 072 00	(928 00)
Interest	-	-	950 97	950 97
Special assessments-solid waste	5 700 00	5 700 00	3 715 00	(1 985 00)
Miscellaneous	6 422 00	6 422 00	12 393 07	5 971 07
Total revenues	<u>156 082 00</u>	<u>153 082 00</u>	<u>155 143 87</u>	<u>2 061 87</u>
Expenditures:				
Legislative:				
Township Board	2 240 00	2 240 00	2 320 00	80 00
General government:				
Supervisor	12 000 00	12 000 00	10 024 50	(1 975 50)
Elections	2 400 00	2 400 00	725 14	(1 674 86)
Clerk	5 000 00	5 000 00	4 819 50	(180 50)
Assessor	5 400 00	5 400 00	5 400 00	-
Board of Review	2 300 00	2 300 00	397 50	(1 902 50)
Treasurer	5 000 00	5 000 00	5 248 50	248 50
Township hall and grounds	25 000 00	25 000 00	25 614 38	614 38
Cemetery	3 500 00	3 500 00	3 930 00	430 00
Unallocated	22 900 00	22 900 00	16 068 07	(6 831 93)
Public safety:				
Fire protection	8 500 00	8 500 00	8 189 98	(310 02)
Liquor	489 00	489 00	489 60	60
Public works:				
Highways and streets	8 500 00	8 500 00	2 551 00	(5 949 00)
Street lighting	6 200 00	6 200 00	6 438 43	238 43
Sanitation	5 000 00	5 000 00	6 874 00	1 874 00
Hydrant rental	1 200 00	1 200 00	1 200 00	-
Other:				
Insurance	20 878 00	20 878 00	14 658 00	(6 220 00)
Retirement	5 200 00	5 200 00	3 302 82	(1 897 18)
Capital outlay	4 000 00	4 000 00	47 000 00	43 000 00
Total expenditures	<u>145 707 00</u>	<u>145 707 00</u>	<u>165 251 42</u>	<u>19 544 42</u>
Excess (deficiency) of revenues over expenditures	7 375 00	7 357 00	(10 107 55)	(17 482 55)
Fund balance, April 1	-	-	188 025 49	188 025 49
Fund Balance, March 31	<u>7 375 00</u>	<u>7 375 00</u>	<u>177 917 94</u>	<u>170 542 94</u>

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

BALANCE SHEET – WATER FUND  
March 31, 2005 and 2006

<u>Assets</u>	<u>3/31/05</u>	<u>3/31/06</u>
Current assets:		
Cash in bank	922 43	1 032 23
Accounts receivable	2 445 00	2 678 50
Total current assets	<u>3 367 43</u>	<u>3 710 73</u>
Restricted assets:		
Cash in bank	35 824 91	50 728 21
Total restricted assets	<u>35 824 91</u>	<u>50 728 21</u>
Property, plant and equipment:		
Water system	672 805 50	672 805 50
Accumulated depreciation	(308 570 92)	(323 782 28)
Net property, plant and equipment	<u>364 234 58</u>	<u>349 023 22</u>
Total Assets	<u>403 426 92</u>	<u>403 462 16</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Current portion of long-term debt	4 300 00	4 300 00
Accrued interest payable	300 00	300 00
Total current liabilities	<u>4 600 00</u>	<u>4 600 00</u>
Long-term liabilities:		
Revenue bonds payable	78 000 00	74 000 00
Less current portion	(4 300 00)	(4 300 00)
Total long-term liabilities	<u>73 700 00</u>	<u>69 700 00</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	286 234 58	275 023 22
Reserved	35 824 91	50 728 21
Unreserved	3 067 43	3 410 73
Total fund equity	<u>325 126 92</u>	<u>329 162 16</u>
Total Liabilities and Net Assets	<u>403 426 92</u>	<u>403 462 16</u>

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN RETAINED EARNINGS – WATER FUND  
Years Ended March 31, 2005 and 2006

	<u>3/31/05</u>	<u>3/31/06</u>
Operating revenues:		
Charges for services	<u>25 480 50</u>	<u>32 932 00</u>
Total operating revenues	<u>25 480 50</u>	<u>32 932 00</u>
Operating expenses:		
Wages	5 932 00	5 920 00
Contracted services	2 484 30	1 014 76
Supplies	862 84	696 18
Utilities	531 54	629 76
Miscellaneous	<u>1 108 00</u>	<u>1 929 50</u>
Total operating expenses before depreciation	<u>10 918 68</u>	<u>10 190 20</u>
Operating income (loss) before depreciation	14 561 82	22 741 80
Less: depreciation	<u>(15 211 36)</u>	<u>(15 211 36)</u>
Operating income (loss)	<u>(649 54)</u>	<u>(7 530 44)</u>
Nonoperating income (expenses):		
Interest income	253 23	304 80
Interest expense	<u>(4 076 20)</u>	<u>(3 800 00)</u>
Net nonoperating income (expense)	<u>(3 822 97)</u>	<u>(3 495 20)</u>
Net income (loss)	(4 472 51)	4 035 24
Retained earnings, April 1	<u>329 599 43</u>	<u>325 126 92</u>
Retained Earnings, March 31	<u>326 126 92</u>	<u>329 162 16</u>

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

STATEMENT OF CASH FLOWS – WATER FUND  
Years Ended March 31, 2005 and 2006

	<u>3/31/05</u>	<u>3/31/06</u>
Cash flows from operating activities:		
Cash received from customers	24 573 50	32 698 50
Cash payments to suppliers for goods and services	<u>(10 918 68)</u>	<u>(10 190 20)</u>
Net cash provided (used) for operating activities	<u>13 654 82</u>	<u>22 508 30</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bond maturities	(11 500 00)	(4 000 00)
Interest paid on revenue bonds	<u>(4 076 20)</u>	<u>(3 800 00)</u>
Net cash provided (used) for capital and related financing activities	<u>(15 576 20)</u>	<u>(7 800 00)</u>
Cash flows from investing activities:		
Interest income	<u>253 23</u>	<u>304 80</u>
Net cash provided (used) for investing activities	<u>253 23</u>	<u>304 80</u>
Net increase (decrease) in cash and cash equivalents	(1 668 15)	15 013 10
Cash and cash equivalents, April 1	<u>38 415 49</u>	<u>36 747 34</u>
Cash and Cash Equivalents, March 31	<u>36 747 34</u>	<u>51 760 44</u>
Reconciliation of operating income to net cash provided (used) for operating activities:		
Operating income (loss)	(649 54)	7 530 44
Depreciation	15 211 36	15 211 36
Increase (decrease) in assets and liabilities:		
Accounts receivable	(662 00)	(233 50)
Accounts payable	<u>(245 00)</u>	<u>-</u>
Net Cash Provided (Used) for Operating Activities	<u>13 654 82</u>	<u>22 508 30</u>

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

STATEMENT OF CHANGES IN ASSETS AND  
LIABILITIES – CURRENT TAX COLLECTION FUND  
Year Ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in bank	<u>-</u>	<u>252 329 37</u>	<u>252 329 37</u>	<u>-</u>
Total Assets	<u>-</u>	<u>252 329 37</u>	<u>252 329 37</u>	<u>-</u>
<u>Liabilities</u>				
Due to other funds	<u>-</u>	<u>49 910 58</u>	<u>49 910 58</u>	<u>-</u>
Due to others	<u>-</u>	<u>202 418 79</u>	<u>202 418 79</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>252 329 37</u>	<u>252 329 37</u>	<u>-</u>

TOWNSHIP OF GERMFASK  
Schoolcraft County, Michigan

INSURANCE COVERAGE  
March 31, 2006

Fire, lightning, extended coverage – 80% co-insurance:	
Blanket property coverage	1 287 000 00
General liability:	
Bodily injury & property damage (combined single limit)	per occurrence 1 000 000 00
	aggregate 3 000 000 00
Errors and omissions	per occurrence 1 000 000 00
	aggregate 2 000 000 00
Surety bonds:	
Supervisor	5 000 00
Treasurer	25 000 00
Deputy Treasurer	15 000 00
Clerk	10 000 00
Deputy Clerk	10 000 00
Workmen's compensation	statutory
Automobile liability:	
Bodily injury & personal property (combined single limit)	1 000 000 00
Crime:	
Year round	10 000 00
Inland marine	27 500 00
Boiler	100 000 00

# **CAMPBELL, KUSTERER & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

June 19, 2006

To the Township Board  
Township of Germfask  
Schoolcraft County, Michigan

We have audited the financial statements of the Township of Germfask, Schoolcraft County, Michigan, as of and for the year ended March 31, 2006, and have issued our report thereon dated June 19, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As a part of obtaining reasonable assurance about whether Township of Germfask's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Township of Germfask's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses except for the inherent inadequate segregation of duties which is due to the limited number of office personnel employed.

This report is intended for the information of management and other regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

# **CAMPBELL, KUSTERER & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA**

**512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707**

**TEL (989) 894-1040  
FAX (989) 894-5494**

## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

June 19, 2006

To the Township Board  
Township of Germfask  
Schoolcraft County, Michigan

We have audited the financial statements of the Township of Germfask for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Germfask in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."



To the Township Board  
Township of Germfask  
Schoolcraft County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Germfask began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board  
Township of Germfask  
Schoolcraft County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & CO., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants